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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Beijing Jingcheng Machinery Electric Company Limited**, you should at once hand this circular, together with the accompanying form of proxy, to the purchaser or to the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

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北京京城机电股份有限公司

Beijing Jingcheng Machinery Electric Company Limited

(a joint stock limited company established in the People's Republic of China)

(Stock Code: 0187)

(1) POSSIBLE MAJOR TRANSACTION

**PROPOSED AMENDMENTS TO THE TERMS OF PUBLIC TENDER
IN RELATION TO DISPOSAL OF EQUITY INTERESTS
IN SHANDONG TIANHAI**

(2) CONNECTED TRANSACTION

ENTERING INTO AGREEMENT WITH YONG'AN HELI

(3) PROPOSED APPOINTMENT OF NON-EXECUTIVE DIRECTOR

The EGM will be held at No. 2 Huo Xian Nan San Road, Huo Xian Town, Tongzhou District, Beijing on Monday, 9 September 2019 at 9:30 a.m. Further details of the EGM are set out in the notice issued by the Company dated 24 July 2019.

A form of proxy and reply slip in respect of the EGM are enclosed with this circular. Whether or not you intend to attend the EGM, you are requested to complete the form of proxy for use at the EGM in accordance with the instructions printed thereon and return the same to the business address of the Company at No. 2 Huo Xian Nan San Road, Huo Xian Town, Tongzhou District, Beijing, the PRC, or the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. The completion and delivery of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof if you so wish.

23 August 2019

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DEFINITIONS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

“Agreement”	the agreement dated 24 July 2019 entered into between Beijing Tianhai and Yong’an Heli in relation to the Potential Disposal
“A Share(s)”	domestic ordinary Share(s) with a par value of RMB1.00 each in the share capital of the Company which are listed on the Shanghai Stock Exchange and traded in RMB
“Bank Guarantee Letter”	the bank guarantee letter valued at RMB5.5 million to be provided by Yong’an Heli pursuant to the Agreement
“Beijing SASAC”	Beijing Municipal People’s Government State-owned Assets Supervision and Administration Commission
“Beijing Tianhai”	北京天海工業有限公司 (Beijing Tianhai Industry Co., Ltd.), a company incorporated in the PRC with limited liability, which is 100% owned by the Company
“Bidding Deposit”	the deposit of RMB16.58 million to be remitted by Yong’an Heli pursuant to the Agreement
“Board”	the board of Directors of the Company
“CBEX”	北京產權交易所有限公司 (China Beijing Equity Exchange Co., Ltd.), an institution authorised by the Beijing SASAC for transaction of assets and equity of State-owned enterprises under the central government of the PRC
“Company”	北京京城機電股份有限公司 (Beijing Jingcheng Machinery Electric Company Limited), a joint stock company incorporated in the PRC with limited liability and the shares of which are listed on the Main Board of the Stock Exchange and the Shanghai Stock Exchange
“Connected Person(s)”	has the meaning as ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“Equity Transaction Agreement”	the equity transaction agreement to be entered into between the Company and the Potential Transferee in relation of the Potential Disposal

DEFINITIONS

“EGM”	the extraordinary general meeting of the Company to be convened on 9 September 2019 (Monday) at 9:30 a.m. at first Conference Room, No. 2 Huo Xian Nan San Road, Huo Xian Town, Tongzhou District, Beijing
“Group”	the Company and its subsidiaries
“H Share(s)”	the overseas listed foreign shares of nominal value of RMB1.00 each in the share capital of the Company, which are listed on the Main Board of the Stock Exchange, subscribed for and traded in Hong Kong dollars
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Jingcheng Machinery Electric”	北京京城機電控股有限責任公司 (Beijing Jingcheng Machinery Electric Holding Co., Ltd.), a company incorporated in the PRC and holding 43.30% interest in the Company
“Latest Practicable Date”	23 August 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Original Minimum Consideration”	the original listing price of RMB61,409,200 for the 51% equity interest in Shandong Tianhai, which is the estimated value of Shandong Tianhai based on the Valuation Report
“Potential Disposal”	the proposed disposal of 51% equity interests in Shandong Tianhai by the Company through CBEX
“Potential Transferee”	the bidder who won the bidding for the Potential Disposal through public tender
“PRC” or “State”	the People’s Republic of China, which for the purpose of this circular excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Previous Disclosures”	the announcement of the Company dated 16 January 2019 and the circular of the Company dated 15 February 2019

DEFINITIONS

“Revised Minimum Consideration”	the revised listing price of 51% equity interests in Shandong Tianhai, being RMB55,268,300
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shandong Tianhai”	山東天海高壓容器有限公司 (Shandong Tianhai High Pressure Containers Co., Ltd.), a company incorporated in the PRC with limited liability, which the Company indirectly owns 51% equity interests
“Shareholders”	holders of the Shares
“Share(s)”	A Shares and H Shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Termination Agreement”	the agreement to be entered between the Company and Shandong Tianhai on the date of signing the Equity Transaction Agreement to terminate the Trademark License Agreement
“Total Consideration”	the aggregate amount of the Bidding Deposit (RMB16.58 million) and the Bank Guarantee Letter (RMB5.5 million), being RMB22.08 million
“Trademark License Agreement”	the trademark license agreement dated 28 May 2014 entered into between the Company and Shandong Tianhai
“Transfer Price”	the final bid price of the 51% equity interests in Shandong Tianhai
“Valuation Report”	the “Asset Valuation Report in relation to the Value of All the Shareholders’ Interest of Shandong Tianhai High Pressure Containers Co., Ltd. Proposed to be Transferred by Beijing Tianhai Industry Co., Ltd.” (Zhong Qi Hua Ping Bao Zi (2018) No. 4028) issued by 北京中企華資產評估有限責任公司 (Beijing China Enterprise Appraisals Co., Ltd.) in respect of all the equity interests (net assets) of Shandong Tianhai for valuation purpose as at 30 April 2018, being the base date for valuation

DEFINITIONS

“Yong’an Heli”

山東永安合力鋼瓶股份有限公司 (Shandong Yong’an Heli Steel Cylinder Co., Ltd.), a company incorporated in the PRC with limited liability, which owns 49% equity interests in Shandong Tianhai

“%”

percent



北京京城機電股份有限公司

Beijing Jingcheng Machinery Electric Company Limited

(a joint stock limited company established in the People's Republic of China)

(Stock Code: 0187)

Executive directors:

Mr. Wang Jun
Mr. Li Junjie
Mr. Zhang Jiheng

Non-executive directors:

Ms. Jin Chunyu
Mr. Xia Zhonghua
Ms. Li Chunzhi

Independent non-executive directors:

Ms. Wu Yan
Mr. Liu Ning
Mr. Yang Xiaohui
Mr. Fan Yong

Registered office:

Room 901, No. 59 Mansion,
Dongsanhuan Road Central,
Chaoyang District,
Beijing,
PRC

23 August 2019

To the Shareholders

Dear Sir or Madam,

**(1) POSSIBLE MAJOR TRANSACTION
PROPOSED AMENDMENTS TO THE TERMS OF PUBLIC TENDER
IN RELATION TO DISPOAL OF EQUITY INTEREST
IN SHANDONG TIANHAI**

**(2) CONNECTED TRANSACTION
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(3) PROPOSED APPOINTMENT OF NON-EXECUTIVE DIRECTOR

INTRODUCTION

Reference is made to the announcement of the Company dated 22 July 2019 in respect of the amendments to the terms of public tender in relation to the Potential Disposal and the announcement of the Company dated 24 July 2019 in relation to the Agreement.

LETTER FROM THE BOARD

On 7 March 2019, 51% equity interests in Shandong Tianhai was publicly quoted on CBEX for transfer. As at the Latest Practicable Date, no bidders have participated in the public tender of 51% equity interests in Shandong Tianhai. Based on the above situation, in accordance with “Supervision and Management Measures for Enterprises State-owned Assets” (Decree No. 12 of the State-owned Assets Supervision and Administration Commission of the State Council) and “Opinions on Implementing the Supervision and Management Measures for Enterprises State-owned Assets” (Jing Guo Zi Fa [2017] No. 10), the Company intends to apply to CBEX for amending the conditions of listing to dispose of the 51% equity interests in Shandong Tianhai held by the Company through Beijing Tianhai by public tender, including but not limited to amendments of the Original Minimum Consideration and payment terms. Such amendment procedures are in compliance with relevant requirements by Beijing SASAC and CBEX.

The Company is a State-controlled listed company and the disposal of its State-controlled assets is required to undergo the process of public tender through an approved equity exchange in accordance with the laws and regulations of the PRC concerning the disposal of State-controlled assets. The Potential Disposal will be carried out through CBEX. According to the regulations of CBEX, the Potential Transferee is required to enter into the Equity Transaction Agreement with the Company.

On 24 July 2019, Beijing Tianhai and Yong'an Heli entered into an agreement with the Total Consideration being RMB22.08 million, pursuant to which Yong'an Heli intends to acquire 51% equity interests in Shandong Tianhai and agrees to apply to CBEX for bidding in relation to the Potential Disposal quoted on CBEX.

The purpose of this circular is to provide you with information regarding, among others, (i) further information in respect of the Potential Disposal, the Equity Transaction Agreement and the Agreement; (ii) other information as required by the Listing Rules; and (iii) information in respect of the proposed appointment of non-executive Director.

PROPOSED AMENDMENTS TO THE TERMS OF THE PUBLIC TENDER

Qualification of the Potential Transferee

The Potential Transferee shall satisfy, among others, the following descriptions and qualifications:

1. the Potential Transferee must be a validly existing enterprise or a natural person; and
2. the Potential Transferee must have sound financial capability for payment.

Date and Procedures of the Public Tender

The Company intends to submit the amendments of the terms of public tender to CBEX before the end of September 2019 after the Shareholders have passed the relevant resolution at the EGM.

LETTER FROM THE BOARD

For the amendments to the terms of public tender, the Company is required to submit the Application for Disclosure of Tender Information (《產權轉讓信息披露申請書》) to CBEX. Terms in the Application for Disclosure of Tender Information and other terms in relation to the transfer are as follows:

1. The Potential Transferee shall pay a transaction deposit of RMB16.58 million to the designated account of CBEX within 3 working days after the qualification is confirmed (based on the time of receipt of such deposit). Upon the expiration of the information disclosure period, depending on the situation regarding solicitation of Potential Transferee, follow-up actions shall be conducted in accordance with the CBEX Operation Rules on Transfer of State-owned Assets (《北京產權交易所企業國有產權轉讓操作規則》), the CBEX Operation Rules on Registration of Intention for Transfer of State-owned Assets (《北京產權交易所企業國有產權轉讓登記受讓意向操作規則》), the CBEX Operation Rules on Transaction deposit for Transfer of State-owned Assets (《北京產權交易所企業國有產權轉讓交易保證金操作細則》), the CBEX Operation Rules on the Exercise of Pre-emptive Rights by Shareholders for Transfer of State-owned Assets (《北京產權交易所企業國有產權轉讓股東行使優先購買權操作細則》) and other relevant requirements.
2. If any of the following circumstances occurs (other than due to Beijing Tianhai), the transaction deposit paid by the Potential Transferee will be deducted:
 - (1) the Potential Transferee withdraws the transfer application unilaterally after paying the transaction deposit;
 - (2) two or more eligible Potential Transferees are solicited, yet they do not participate in the subsequent bidding process;
 - (3) in the bidding process, the eligible minimum consideration is the base bidding price, the eligible Potential Transferees bid lower than the base bidding price;
 - (4) after being confirmed as the transferee, the Potential Transferee fails to enter into the Equity Transaction Agreement with Beijing Tianhai and fails to pay the remaining balance of the Transfer Price within the agreed time limit;
 - (5) the Potential Transferee has violated other trading rules and listing requirements.
3. The listing period is the due diligence period. If the Potential Transferee submits the transfer application and pays the transaction deposit, it is considered to have carefully read and fully recognized the information disclosure of Shandong Tianhai, and willingly accepted all the contents of the tender notice based on such contents and its independent judgment.

LETTER FROM THE BOARD

4. The Potential Transferee shall undertake in writing that:
- (1) it has fully understood and willingly accepted all the contents of the tender notice and the current status of Shandong Tianhai, and is willing to fully implement the transaction procedures. It fully acknowledges the transaction documents involved in the Potential Disposal, including but not limited to the auditor's report, the asset valuation report and the disclosures in such reports, and waives the right for accountability and claim against Beijing Tianhai and the trading institution and the broker members of the parties due to any risk arising from any part of the transaction process of the Potential Disposal for its own reasons;
 - (2) after being confirmed as the transferee, if the transferee is not a connected person of the Company, the Equity Transaction Agreement shall be entered into with Beijing Tianhai within 5 working days after being confirmed as the transferee; if the transferee is a connected person of the Company, the Equity Transaction Agreement shall be entered into with the transferor in accordance with the CBEX Operation Rules on Transfer of State-owned Assets as well as Chapter 14A of the Listing Rules;
 - (3) within 3 working days from the effective date of the Equity Transaction Agreement, the transaction consideration shall be remitted into the designated account of CBEX in the form of monetary funds;
 - (4) the transferee is mainly responsible for handling the registration procedures for the equity transfer in Shandong Tianhai, and Beijing Tianhai shall provide necessary assistance and cooperation. Along with the business registration of this equity transfer, Shandong Tianhai shall change its company name which shall not include the word "Tianhai". Shandong Tianhai shall not produce products with the trademarks licensed by Beijing Tianhai or the word "Tianhai".

The publication period will be open for 20 working days from the date of disclosure by CBEX on the amendments of the terms of public tender. During the publication period, bidders qualified to be the Potential Transferee may indicate their interest in purchasing the 51% equity interests in Shandong Tianhai and register themselves as bidders. Upon the expiry of the publication period, CBEX will notify the Company the identity of the Potential Transferee.

Within 5 working days upon notification of the Potential Transferee by CBEX, Beijing Tianhai is required to enter into the Equity Transaction Agreement with the Potential Transferee.

As at the Latest Practicable Date, material information of the Equity Transaction Agreement including the Potential Transferee, Transfer Price, payment method, delivery and transfer time, etc. have not been determined. The Company will enter into the Equity Transaction Agreement upon confirmation of the Potential Transferee and perform its

LETTER FROM THE BOARD

relevant approval procedures and information disclosure obligations. As at the Latest Practicable Date, no equity transfer agreement has been entered into between the Company and any other party in relation to the Potential Disposal.

Consideration

The Original Minimum Consideration being RMB61,409,200, which was based on 51% equity interests of the total estimated value of Shandong Tianhai, being RMB120,410,100, as per the Valuation Report. Yet as at the Latest Practicable Date, no bidders have participated in the public tender of 51% equity interests in Shandong Tianhai. Based on the above situation, the Company intends to apply to CBEX for amending the condition, of listing with the Revised Minimum Consideration of RMB55,268,300, being approximately 90% of the Original Minimum Consideration.

Shareholders should note that the Transfer Price will depend on the final bid price, which will, in any event, be no less than the Revised Minimum Consideration.

The Equity Transaction Agreement

The Company will enter the Equity Transaction Agreement after the Potential Transferee is determined. The principal terms of the Equity Transaction Agreement are set out as below:

Equity transfer:	<p>The Company shall transfer its 51% equity interests in Shandong Tianhai through Beijing Tianhai to the Potential Transferee, and its capital contribution of RMB58,420,500 in respect of the 51% equity interests in Shandong Tianhai has been settled in full.</p> <p>Shandong Tianhai has not engaged in any forms of guarantee, including but not limited to pledging of the relevant assets and equity, or any limitations or obligations that will hinder the Potential Disposal or the exercise of any shareholder's rights. Shandong Tianhai has not been the subject of any seizure or any injunctive measures by the competent authorities.</p>
Mode of transfer:	<p>Through public tender to be quoted on CBEX, the bidder who wins the bidding will be the Potential Transferee.</p>
Transfer Price and payment method:	<p>The Potential Transferee shall pay the Company the Transfer Price subject to the final bid price through public tender, which shall not be lower than the listing price.</p> <p>The Potential Transferee shall pay for the transaction deposit as requested by the Company and CBEX, which shall form part of the consideration.</p>

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The Transfer Price shall be denominated in RMB. If the Transfer Price is paid in foreign currency by the Potential Transferee, the amount of the foreign currency paid by the Potential Transferee will be determined by the average price of the buying price and the selling price of RMB and such foreign currency as the exchange rate as announced by the People's Bank of China one day before the Potential Transferee pays the Transfer Price. If the Potential Transferee fails to pay the Transfer Price when due, the exchange rate risks for the period from the due date of payment of the Transfer Price to the overdue payment date shall be assumed by the Potential Transferee.

Pursuant to Previous Disclosures, the original installment payment terms were as follows:

The Potential Transferee shall pay the Transfer Price to the Company:

- (1) The Potential Transferee shall remit 70% of the Transfer Price into the settlement account designated by CBEX within 3 days upon the Equity Transfer Agreement becoming effective.
- (2) The Potential Transferee shall pay the Company the balance of the Transfer Price together with the interests incurred for the period from the effective date of the Equity Transfer Agreement until the date of actual payment calculated at the prevailing bank loan interest rate for the same period, with full settlement of such balance of the Transfer Price and corresponding interests to the Company within 6 months upon effectiveness of the Equity Transfer Agreement. Details relating to the balance of the Transfer Price stated in this clause, and the legal means for the provision of guarantee such as equity pledge by the Potential Transferee or joint and several guarantee to be provided by third party (if any) will be set out in the guarantee agreement and/or equity pledge agreement between the parties.

The Company intends to revise installment payment terms as follows:

LETTER FROM THE BOARD

The Potential Transferee shall pay the Transfer Price to the Company:

- (1) The Potential Transferee shall remit 50% of the Transfer Price (including the transaction deposit of RMB16.58 million) into the settlement account designated by CBEX within 3 days upon the Equity Transfer Agreement becoming effective.
- (2) The Potential Transferee shall pay the Company the balance of the Transfer Price together with the interests incurred for the period from the effective date of the Equity Transfer Agreement until the date of actual payment calculated at the prevailing bank loan interest rate for the same period, with full settlement of such balance of the Transfer Price and corresponding interests to the Company within 1 year upon effectiveness of the Equity Transfer Agreement. Details relating to the balance of the Transfer Price stated in this clause, and the legal means for the provision of guarantee such as equity pledge by the Potential Transferee or joint and several guarantee to be provided by third party (if any) will be set out in the mortgage agreement and/or equity pledge agreement between the parties.

Completion:

1. The Company and the Potential Transferee shall perform or assist to perform the obligations regarding the reporting to relevant vetting authorities and cooperate to handle any reasonable requests and enquires made by such vetting authorities, on a best effort basis, for the purpose of obtaining the approval from such vetting authorities for the Equity Transfer Agreement and the Potential Disposal contemplated thereunder.

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2. Within 15 days upon the Potential Transferee paying the first installment of the Transfer Price and providing a legal guarantee agreed by Beijing Tianhai in accordance with the Equity Transfer Agreement, and the Potential Disposal obtaining the transaction certificate issued by CBEX, the Company shall procure Shandong Tianhai to complete the change to its register of members, the equity transfer registration procedures with the relevant authority, the change of company name and the Potential Transferee shall provide necessary assistance and cooperation. The completion of the Potential Disposal shall take place on the date upon the completion of change to the register of members of Shandong Tianhai and aforementioned registration procedures with relevant authority.
3. Within 15 days upon the completion of the Potential Disposal, both parties shall determine the specific date, place and subject matters to be completed in relation to the Potential Disposal. Pursuant to the “Assets and Information List” of Shandong Tianhai required under the Equity Transfer Agreement, the assets and list, ownership certificate, approval documents, financial statements, filing information, chops and seals, construction plans and technical information of Shandong Tianhai shall be transferred by the Company to and verified by the Potential Transferee.
4. The Company shall take responsibilities for the information in terms of completeness and truthfulness of the abovementioned information and whether it is consistent with the information provided by Shandong Tianhai, and bear all legal liabilities arisen from concealment and misrepresentation of facts.
5. The Company shall transfer the assets, power of control and management of Shandong Tianhai to the Potential Transferee within the above agreed period and Shandong Tianhai will be managed and controlled by the Potential Transferee.

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6. Where the original Shandong Tianhai is cancelled by the Potential Transferee and its assets are consolidated into its corporate or associated entities under its control, the Company shall assist in completing the registration and transfer procedures for obtaining relevant certificates and approvals.
7. The Company entered into the Trademark License Agreement with Shandong Tianhai on 28 May 2014 in respect of the Company's authorisation to Shandong Tianhai to use the agreed trademark. In respect of the Company's termination of the authorization for Shandong Tianhai's use of such trademark, the Company and Shandong Tianhai shall enter into the Termination Agreement on the date of signing the Equity Transaction Agreement to terminate the Trademark License Agreement. The principal terms of the Termination Agreement are as follows:
 - (1) The Trademark License Agreement is terminated from the effective date of the Equity Transaction Agreement in relation to the Company's transfer of its 51% equity interest in Shandong Tianhai. Save as otherwise stipulated in the Termination Agreement, Shandong Tianhai shall not use any trademark which the Company authorized Shandong Tianhai to use under the Trademark License Agreement in any form from the date of termination of the Trademark License Agreement.
 - (2) From the effective date of the Equity Transaction Agreement, Shandong Tianhai shall not produce products with the word "Tianhai" or the "JP" trademark. Except for the inventory produced before the effective date of the Equity Transaction Agreement, Shandong Tianhai shall not use the word "Tianhai" or the "JP" trademark on its products, packaging or containers or for publicity and promotion. Shandong Tianhai shall complete the formalities for the change of its company name along with the registration of the equity transfer business registration in accordance with the Equity Transaction Agreement.

LETTER FROM THE BOARD

- (3) During the period from the effective date of the Termination Agreement to four months after the effective date of the Equity Transaction Agreement, Shandong Tianhai shall manage its orders in order to gradually reduce the orders with JP brand and sell all inventory with the word “Tianhai” or the “JP” trademark which shall be verified and confirmed by both parties within such period, so as to ensure that the products with the word “Tianhai” or the “JP” trademark are no longer sold by Shandong Tianhai after four months from the effective date of the Equity Transaction Agreement.
- (4) The signing of the Termination Agreement shall not be considered as a waiver of the Company’s right to claim Shandong Tianhai’s liability for breach of contract under the Trademark License Agreement.
- (5) In the event of breach of the Termination Agreement by Shandong Tianhai due to Shandong Tianhai continues to produce and sell products with the word “Tianhai” or the “JP” trademark or continues to use the subject trademark and/or “Tianhai” for publicity or marks the word “Tianhai” on its products, Shandong Tianhai shall pay the liquidated damages of RMB5 million to the Company and indemnify the Company for the actual losses suffered as a result of such breach.
- (6) The Termination Agreement shall take effect on the date of signature and affixing of the official seal by the legal representatives of both parties or their authorized representatives.

LETTER FROM THE BOARD

8. The Potential Transferee shall procure Shandong Tianhai to complete the registration procedures for change of the name of Shandong Tianhai within 15 working days upon the completion date of the Potential Disposal and the wordings of “Tianhai” shall not be included in the new name of Shandong Tianhai. For the avoidance of doubt, if the Potential Transferee has not paid the first installment of the Transfer Price in accordance with the Equity Transaction Agreement, the procedures for change of name of Shandong Tianhai shall be handled within 3 days from the deadline of the payment date of the first installment of the Transfer Price.

Obligations of fees
payment for the
Potential Disposal:

Fees incurred in the Potential Disposal contemplated under the Equity Transfer Agreement shall be borne by the Company and the Potential Transferee respectively in accordance with the relevant requirements.

Liability for breach of
contract:

1. Upon the Equity Transfer Agreement being effective, any party who proposes to terminate the Equity Transfer Agreement without any reason shall pay 30% of the Transfer Price to the other party as one-off liquidated damages in accordance with the Equity Transfer Agreement and shall be liable for any losses suffered by the other party.
2. Where the Potential Transferee fails to pay the Transfer Price within the agreed period under the Equity Transfer Agreement, the Potential Transferee shall pay the Company the liquidated damages for late payment. Such liquidated damages shall be calculated according to the 0.05% of the Transfer Price payable within the overdue period. In case the overdue payment exceeds 30 days, the Company shall be entitled to terminate the Equity Transfer Agreement and require the Potential Transferee to pay 10% of the Transfer Price as liquidated damages according to the Equity Transfer Agreement and compensate for any losses suffered by the Company therein.

LETTER FROM THE BOARD

3. Where the Company fails to transfer Shandong Tianhai according to the Equity Transfer Agreement, the Company shall pay liquidated damages to the Potential Transferee. Such liquidated damages shall be calculated at 0.05% of the Transfer Price payable for each day overdue. In case the overdue period exceeds 30 days, the Potential Transferee shall be entitled to terminate the Equity Transfer Agreement and require the Company to pay the Potential Transferee 10% of the Transfer Price as liquidated damages and the losses to the Potential Transferee.
4. If there is any undisclosed or omitted matters regarding the assets and liabilities of Shandong Tianhai which may cause material and adverse impacts to Shandong Tianhai or the price of the Potential Disposal, the Potential Transferee shall be entitled to terminate the Equity Transfer Agreement and require the Company to pay 10% of the Transfer Price as liquidated damages and the losses to the Potential Transferee to bear the liability for breach of contract according to the Equity Transfer Agreement. If the Potential Transferee does not terminate the Equity Transfer Agreement, it shall be entitled to ask the Company for compensation regarding relevant matters. The compensation amount shall be equal to the relevant portion of the losses incurred by the above undisclosed or omitted assets and liabilities of Shandong Tianhai.
5. Where Shandong Tianhai fails to enter into relevant agreement(s) under the Equity Transfer Agreement with the Company within the period that the Company requested or Shandong Tianhai fails to complete the registration procedures for change of corporate name within the agreed period under the Equity Transfer Agreement, the Potential Transferee shall pay 0.05% of the Transfer Price to the Company as liquidated damages for every overdue day and compensate the Company for all losses incurred thereof. If the completion of the Potential Disposal is postponed due to the Company, the registration procedures for the change of name of Shandong Tianhai shall be postponed accordingly.

LETTER FROM THE BOARD

Effective date of the
Equity Transfer
Agreement:

The Equity Transfer Agreement shall take effect upon the date of signature and sealing by legal representatives or authorised representatives of the Company and the Potential Transferee.

Reasons for and Benefits for the Proposed Amendments to the Terms of Public Tender in relation to Potential Disposal and the Use of Proceeds

The reasons for the Potential Disposal is to lower the operating cost of the Company, to optimize its asset structure and resources allocation, and to focus more on its core business, so as to improve the quality of the assets of the Company and increase the profitability of the Company.

The Directors having considered that (1) according to the Valuation Report, the Revised Minimum Consideration is higher than the net book value of assets of the 51% equity interests in Shandong Tianhai, which is in the interest of the Company and Shareholders as a whole; (2) the main products produced by Shandong Tianhai are 219-type seamless industrial gas cylinders, which are the low-end products of the Company. In recent years, due to increasingly fierce market competition, there is a relatively large fluctuation in products profitability, and operational risks have increased significantly. According to the Group's "13th Five-Year Strategic Plan", it intends to optimise and adjust its product structure, to concentrate profitable resources, to develop products with high profitability potential, and to reduce the scale of 219-type seamless industrial gas cylinders in order to achieve the development from producing low-end products to mid-end and high-end products. If the future market demand of 219-type seamless industrial gas cylinders increases, the Company still has independent production and sales capability; (3) the 51% equity interests in Shandong Tianhai was publicly quoted on CBEX for transfer on 7 March 2019, and no bidder has participated in the public tender for the 51% equity interests in Shandong Tianhai for over six months since then up to the Latest Practicable Date, this would have adverse impact on the Company's proposed disposal of 51% equity interests in Shandong Tianhai and the implementation of the Group's business strategy; and (4) according to "Opinions on Implementing the Supervision and Management Measures for Enterprises State-owned assets" (Jing Guo Zi Fa [2017] No. 10) and Article 18 of the Measures for the Supervision and Administration of the Transactions of State-Owned Assets of Enterprises (Order No. 32 of the Ministry of Finance), "Where no intended transferee is solicited at the expiry of the information disclosure period, the period can be extended or the information regarding reduction of the base price of the transfer, or change of the conditions on the transfer, may be disclosed again. Where the information is disclosed again upon the reduction of the base price of the transfer or change of the conditions on the transfer, the disclosure period shall not be less than 20 working days. When the new base price of the transfer is lower than 90% of the appraisal result, consent in writing is required by the entity approving the transfer." The Board revised the minimum consideration to RMB55,268,300, which was not lower than 90% of the appraisal result, in accordance with the above requirement and with an aim to facilitate the completion of the Potential Disposal. The proposed amendments to the terms of public tender in relation to disposal of 51% equity interests in Shandong Tianhai are in compliance with relevant laws and regulations of the PRC.

LETTER FROM THE BOARD

In light of the above, the Directors consider the transaction contemplated under the Potential Disposal will be on normal commercial terms, which is fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

Upon completion of the Potential Disposal, Shandong Tianhai will no longer be a subsidiary of the Company. The financial results of Shandong Tianhai will no longer be consolidated into the accounts of the Company.

The Transfer Price of the Potential Disposal is subject to the final bid price, it is expected that there will have an impact on the Company's profit and loss for the year 2019. The specific amount will be calculated and disclosed based on the results of the Potential Disposal.

The Company intends to use the proceeds for its production and operation. Specifically, the Company intends to use all the proceeds to purchase raw materials such as steel, steel piece and carbon fiber for the production of gas cylinders.

Financial Effect of the Proposed Amendments to the Terms of Public Tender in relation to the Potential Disposal

Earnings

It is estimated that the Group will receive gains of approximately RMB500,000 to RMB1 million upon the completion of the Potential Disposal (the aforementioned range is estimated based on the approved assessed value of RMB120,410,100 as the initial bidding price of the public tender and is subject to the final consideration after the completion of transaction under the public tender). Such gains are estimated based on the Minimum Consideration receivable from the Potential Disposal after deducting the net asset value of Shandong Tianhai as at 30 April 2018 and related transaction expenses. Shareholders are reminded that (i) the actual gains will be recognised in the financial statements of the Company after the disposal through public tender and subject to the audited profit or loss by auditor after the date of completion of the Potential Disposal, therefore the actual gains may differ from the abovementioned amounts; (ii) if there are changes in the PRC accounting policies, the Company will comply with such changes

Assets and liabilities

After the completion of the Potential Disposal, Shandong Tianhai will no longer be a subsidiary of the Company, and its financial statements will not be consolidated into the consolidated financial statements of the Group. Changes in total asset of the Group will be consistent with the impact of gains and the total liabilities remain unchanged, and the final information is subject to the audited amount after the public tender.

LETTER FROM THE BOARD

ENTERING INTO AGREEMENT WITH YONG'AN HELI

The Agreement

Date: 24 July 2019

Parties: 1. Yong'an Heli
2. Beijing Tianhai

Target Company: Shandong Tianhai

As at the Latest Practicable Date, Yong'an Heli holds 49% equity interests in Shandong Tianhai, and is therefore a connected person of the Company at the subsidiary level pursuant to Chapter 14A of the Listing Rules.

Potential transfer: In respect of the Potential Disposal quoted on CBEX, Yong'an Heli intends to acquire the 51% equity interest in Shandong Tianhai held by the Company through Beijing Tianhai by way of bidding.

If Yong'an Heli becomes the Potential Transferee of the Potential Disposal, Yong'an Heli shall enter into the Equity Transaction Agreement with the Company in relation to the Potential Disposal. The consideration of the Potential Disposal is RMB55,268,300, which is based on the Revised Minimum Consideration arrived after the intended application of amendments to the conditions of listing to CBEX by the Company.

Undertaking: Within 3 working days from the effective date of the Agreement, Yong'an Heli shall provide a bank guarantee letter issued by China Construction Bank, which is irrevocable and payable on demand, and shall be valid until remittance by Yong'an Heli of 30% of the deposit into the account designated by CBEX, to ensure Yong'an Heli performs the obligation under the Agreement. Such Bank Guarantee Letter is valued at RMB5.5 million, which is with reference to approximately 10% of the Revised Minimum Consideration under the Potential Disposal after the Company's intended application to CBEX for amending the conditions of listing.

Payment terms: 1. Yong'an Heli shall remit the deposit of RMB16.58 million into the joint escrow account controlled by Yong'an Heli and Beijing Tianhai not later than 2 working days after the Company convened a general meeting regarding the matters in relation to the amendment of the conditions of listing of the Potential Disposal. Therefore, the total consideration of the Agreement is the aggregate amount of the Bidding Deposit of RMB16.58 million and the Bank Guarantee Letter of RMB5.5 million, being RMB22.08 million.

LETTER FROM THE BOARD

2. Upon completion of the amendments to the conditions of listing of the Potential Disposal and within 10 days after the Potential Disposal is listed on CBEX, the Bidding Deposit in the joint escrow account shall be remitted into the account designated by CBEX as the deposit of Yong'an Heli for bidding. Such joint escrow account shall be terminated after the Bidding Deposit is remitted into the account designated by CBEX.
3. If Yong'an Heli becomes the Potential Transferee of the Potential Disposal, the Bidding Deposit shall become the first installment under the Equity Transaction Agreement. If the Bidding Deposit is insufficient to cover the first installment, Yong'an Heli shall pay the shortfall of the first installment in accordance with the Equity Transaction Agreement.

Guarantee:

If Yong'an Heli becomes the Potential Transferee of the Potential Disposal, Yong'an Heli and Shandong Tianhai shall provide the following guarantee in respect of all creditor's rights of Beijing Tianhai under the Equity Transaction Agreement:

1. Yong'an Heli shall pledge 49% of equity interests in Shandong Tianhai to Beijing Tianhai;
2. Shandong Tianhai shall pledge the land use right of the land of 25,823 sq.m. located at the Southeastern corner of the intersection of Chang Hong Street and Shun Da Road (planning), Hedong Economic Development Region, as set out in the State-owned Land Use Rights Certificate Lu (2019) Linyi City Real Property No, 0029038 (魯(2019)臨沂市不動產權第0029038號);
3. Shandong Tianhai shall pledge its equipment of RMB24.9939 million to Beijing Tianhai.

Other matters:

1. Beijing Tianhai shall procure the Board to issue a notice of general meeting after the Agreement being considered and approved by the Board, and the Company shall convene a general meeting regarding the matters in relation to the amendments to the conditions of listing of the Potential Disposal. Beijing Tianhai shall complete the amendments to the conditions of listing of the Potential disposal within 10 working days after the resolution in relation to the amendments to the conditions of listing of the Potential Disposal is considered and approved at the general meeting of the Company.

LETTER FROM THE BOARD

2. Yong'an Heli and Beijing Tianhai shall open a joint escrow account at China Construction Bank within 3 working days from the date of issuance of the Bank Guarantee Letter by Yong'an Heli. Such account shall be controlled and used by Yong'an Heli and Beijing Tianhai for the specified purpose.
- Matters in relation to products of Shandong Tianhai:
1. If Yong'an Heli becomes the Potential Transferee of the listing of the Potential Disposal, Beijing Tianhai has the right of production and sales of 219-type steel cylinder and its accessories starting from the effective date of the Equity Transaction Agreement.
2. Starting from the effective date of the Equity Transaction Agreement, Shandong Tianhai shall not produce products with wordings of "Tianhai" or trademark of "JP", except for inventory products produced before the effective date of the Equity Transaction Agreement, Shandong Tianhai shall not use the wordings of "Tianhai" or trademark of "JP" on its products, packaging of products or containers, nor use the wordings of "Tianhai" or trademark of "JP" for advertisement, and shall undertake to complete the industrial and commercial registration for equity transfer and the registration procedures for change of the name of Shandong Tianhai in accordance with the Equity Transaction Agreement.
3. For the period of 4 months starting from the effective date of the Agreement, Yong'an Heli and Shandong Tianhai shall make reasonable arrangements in relation to purchase orders, to gradually reduce the purchase orders under the "JP" brand, and sell all inventory products with wordings of "Tianhai" or trademark of "JP" after stocktake and recognized by both parties during such period, to ensure that Shandong Tianhai will no longer sell products with wordings of "Tianhai" or trademark of "JP" after 4 months from the effective date of the Equity Transaction Agreement.
4. Beijing Tianhai and Shandong Tianhai agreed to terminate the Trademark License Agreement, starting from the effective date of the Equity Transaction Agreement
5. Beijing Tianhai and Yong'an Heli agreed the "Capital Contribution Agreement in Relation to the Establishment of Shandong Tianhai High Pressure Containers Co., Ltd by Beijing Tianhai Industry Co., Ltd. and Shandong Yong'an Heli Steel Cylinder Co., Ltd. entered into between Beijing Tianhai and Yong'an Heli on 28 May 2014" shall be terminated automatically from the completion date of the Potential Disposal.

LETTER FROM THE BOARD

Distribution of
profit:

1. The profit of Shandong Tianhai incurred in the period starting from the base date for valuation of the Valuation Report (i.e. 30 April 2018) to the date of completion of the Potential Disposal (if any) shall be distributed by Beijing Tianhai and Yong'an Heli according to the original shareholdings of the two parties in Shandong Tianhai (i.e. Beijing Tianhai holding 51% and Yong'an Heli holding 49%) based on the audit result (approved by Beijing Tianhai and Yong'an Heli) issued by the third-party auditor engaged by Beijing Tianhai (Beijing Tianhai and Yong'an Heli shall procure the auditor to complete the audit report within 30 days from the date of completion of the industrial and commercial registration for equity transfer). For the avoidance of doubt, the particular distribution arrangement is based on the distribution arrangement as set out in the written notice issued by Beijing Tianhai to Yong'an Heli and Shandong Tianhai. If Yong'an Heli becomes the successful bidder of the Potential Disposal, and Shandong Tianhai fails to distribute the profit to Beijing Tianhai in accordance with the distribution arrangement as set out in the written notice from Beijing Tianhai, Yong'an Heli shall pay corresponding profit to Beijing Tianhai in accordance with the aforesaid audit result within 10 days after receiving the written notice from Beijing Tianhai. If Shandong Tianhai records loss in the transition period, the shareholder of Shandong Tianhai after the completion of the Potential Disposal shall bear such loss.

Liability for breach
of contract:

1. If Yong'an Heli fails to provide the Bank Guarantee Letter to Beijing Tianhai within the agreed period, Yong'an Heli shall pay 1% of the guaranteed amount under the Bank Guarantee Letter to Beijing Tianhai as liquidated damages for every overdue day; in case the overdue of provision of the Bank Guarantee Letter exceeds 30 days, Beijing Tianhai shall be entitled to terminate the Agreement and require Yong'an Heli to compensate for any losses suffered by Beijing Tianhai thereof.
2. If Yong'an Heli fails to remit the Bidding Deposit into the joint escrow account controlled by Beijing Tianhai and Yong'an Heli within the agreed period, Yong'an Heli shall pay 1% of the outstanding amount to Beijing Tianhai as liquidated damages for every overdue day; in case the overdue payment exceeds 30 days, Beijing Tianhai shall be entitled to terminate the Agreement and require Yong'an Heli to compensate for any losses suffered by Beijing Tianhai thereof.

LETTER FROM THE BOARD

3. If Shandong Tianhai fails to distribute profit during the transition period in accordance with the Agreement, Shandong Tianhai shall pay 1% of the outstanding amount to Beijing Tianhai as liquidated damages for every overdue day.
4. If Beijing Tianhai fails to refund the Bidding Deposit in full to Yong'an Heli in accordance with the Agreement, Beijing Tianhai shall pay 1% of the outstanding amount to Yong'an Heli as liquidated damages for every overdue day and is liable for all losses suffered by Yong'an Heli thereof.

Termination: The Agreement shall be terminated on the occurrence of the following events:

1. During the reporting and approval procedures for the amendments to the conditions of listing carried out by Beijing Tianhai in accordance with the “Measures for the Supervision and Administration of the Transactions of State-Owned Assets of Enterprises”, if the minimum consideration of the Transfer Price of the listing approved by the relevant approval authorities is higher than RMB55.2683 million or the Transfer Price does not meet the condition that “the first installment of 50% of the Transfer Price shall be paid within 3 days upon the Equity Transaction Agreement becoming effective, the balance of the Transfer Price together with the interests incurred for the period from the effective date of the Equity Transaction Agreement until the date of actual payment calculated at the prevailing bank loan interest rate for the same period, with full settlement of such balance of the Transfer Price and corresponding interests to Beijing Tianhai within 1 year upon effectiveness of the Agreement.”, the Agreement shall be terminated when final approval is granted to Beijing Tianhai by the relevant approval authorities.
2. If the resolution in relation to the amendments to the conditions of listing is voted down at the general meeting of the Company, the Agreement shall be terminated upon the date of disapproval of such resolution.
3. If Yong'an Heli fails to become the Potential Transferee because of less competitive bidding price after the Bidding Deposit was paid by Yong'an Heli to the CBEX, the Agreement shall be terminated upon the date of the successful bidder of the Potential Disposal is determined by CBEX.

LETTER FROM THE BOARD

4. When the general meeting of the Company considered and approved the resolution in relation to the amendments to conditions of listing and Yong'an Heli is the Potential Transferee of the listing of the Potential Disposal, the Agreement shall be terminated upon the completion of payment of all Transfer Price from Yong'an Heli to Beijing Tianhai in accordance with the Equity Transaction Agreement.

Where the Agreement is terminated due to occurrence of aforementioned event 1, event 2 or event 3, Beijing Tianhai shall not be liable for breach of contract, and where the Agreement is terminated due to occurrence of aforementioned event 1 or event 2, Beijing Tianhai shall refund the Bidding Deposit in full paid by Yong'an Heli in accordance with the Agreement to Yong'an Heli within 5 days upon the termination of the Agreement.

Reasons for and Benefits of Entering into the Agreement

Yong'an Heli intends to acquire the equity interest in Shandong Tianhai, and it expresses genuine intention to undertake to perform the relevant obligations as a potential bidder through this connected transaction.

Since the connected transaction only binds the potential bidding to perform relevant obligations, it does not have any material impact on the financial position and operating results of the Company.

The Directors consider the transaction contemplated under the Agreement will be on normal commercial terms or better, is far and reasonable, and in the interests of the Company and the Shareholders as a whole.

Implications under the Listing Rules

Using the Revised Minimum Consideration as the basis of calculation, one of the relevant percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the Potential Disposal is more than 25% but less than 75%. Thus, the Potential Disposal (if materialised) constitutes a major transaction of the Company and is therefore subject to the requirements of reporting, announcement, and shareholders' approval at general meeting under Chapter 14 of the Listing Rules.

Yong'an Heli holds 49% equity interests in Shandong Tianhai, and is therefore a connected person of the Company at the subsidiary level pursuant to Chapter 14A of the Listing Rules. Yong'an Heli has shown its intention to participate in the public tender, the Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As at least one of the applicable percentage ratios in respect of the Agreement calculated in accordance with Chapter 14 of the Listing Rules is more than 0.1% but less than 5%, the Agreement is subject to the reporting and announcement requirements but exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

If Yong'an Heli finally obtains the qualification as the Potential Transferee of the Potential Disposal, the Company will enter an Equity Transaction Agreement with Yong'an Heli, and the transaction contemplated thereunder will constitute a connected transaction of the Company under Chapter 14A of the Listing Rules. By using the Revised Minimum consideration as the basis at calculation, certain applicable percentage ratios in respect of the Potential Disposal are more than 5%. Given that the Potential Disposal will be carried out by public tender through CBEX and the Transfer Price will not be lower than the Revised Minimum Consideration, taking into account the reasons and benefits of the Potential Disposal, the Board (including the independent non-executive Directors) considers that the terms of the transactions contemplated under the Potential Disposal are fair and reasonable, on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole. In contemplation of such case, the Company has obtained (i) the Board's approval of such transaction and (ii) the confirmation from the independent non-executive Directors that the terms of such transaction are fair and reasonable, on normal commercial terms or better and in the interests of the Company and its Shareholders as a whole. As such, the transaction would be subject to the reporting and announcement requirements to be complied with by the Company but would be exempted from the circular, independent financial advice and independent Shareholders' approval requirements under Rule 14A.101 of the Listing Rules. Nevertheless, according to the relevant requirements by the Shanghai Stock Exchange, the Agreement and the transactions contemplated thereunder are subject to shareholders' approval requirement.

As far as the Company is aware, among the connected persons of the Company, only Yong'an Heli has shown intention that it will participate in the public tender relating to the Potential Disposal. After checking with all the connected persons of the Company at the issuer level, the Company confirms that there will not be any connected person of the Company at the issuer level participating in the public tender.

None of the Directors has a material interest in the transactions contemplated under the Potential Disposal and the Agreement and therefore, none of them has abstained from voting on the relevant board resolutions.

To the best of knowledge, information and belief of the Directors after having made all reasonable enquiries, no Shareholder has material interest in the Potential Disposal and the Agreement and thus no Shareholder would be required to abstain from voting on the resolutions for approving for approving the amendment to the terms of public tender in relation to the Potential Disposal and the entering into the Agreement at the EGM.

An announcement containing the results of the public tender will be made by the Company as soon as practicable after the public tender is completed.

As at the Latest Practicable Date, the Potential Disposal has not yet been materialised, the Potential Transferee is still uncertain, no Equity Transaction Agreement has been signed by the Company, and no arrangement on contract performance has been made. Therefore, the Shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares of the Company.

LETTER FROM THE BOARD

GENERAL

Information on the Company

The Company is principally engaged in research and development, manufacture and sales of compressed gas cylinders, gas compressors and related equipment.

The authorised scope of operation of the Company includes general logistics and professional contractor.

The Company's general operation projects include developing, designing, selling, installing, adjusting and maintaining cryogenic containers, compressors (piston compressor, membrane compressor and membrane compressor of nuclear grading) and accessories; machinery equipment and electrical equipment; technical consultancy and technical services; import and export of commodities and technology and acting as import and export agency.

Information on Shandong Tianhai

Shandong Tianhai is a company established under the laws of the PRC with limited liability on 12 June 2014. The Company holds 51% equity interests in Shandong Tianhai through its controlling subsidiary Beijing Tianhai, and Yong'an Heli holds 49% equity interests in Shandong Tianhai. The business scope of Shandong Tianhai includes: production of seamless gas cylinders (steel seamless gas cylinders only) and welding gas cylinders; sales of industrial gas cylinders and their accessories (for projects requiring approval according to law, the operating activities can be commenced upon approval of the relevant departments).

In accordance with the generally accepted accounting principles in the PRC, the profits before and after taxation of Shandong Tianhai for the financial years ended 31 December 2017 and 2018 were as follows:

	For the year ended 31 December 2018	For the year ended 31 December 2017
	<i>RMB</i>	<i>RMB</i>
Profit before taxation	4,911,285.14	-8,509,054.79
Profit after taxation	4,911,285.14	-8,509,054.79

As at 30 April 2018, Shandong Tianhai was valued at RMB 120,410,100 based on the Valuation Report, the audited net book value of assets of the 51% equity interests in Shandong Tianhai was RMB54,545,265. Therefore, the Revised Minimum Consideration is approximately RMB723,035 higher than the net book value of assets of the 51% equity interests in Shandong Tianhai.

LETTER FROM THE BOARD

Information on Yong'an Heli

Yong'an Heli is a joint stock company established under the laws of the PRC with limited liability on 25 October 2013. The business scope of Yong'an Heli includes sales of steel cylinders and their accessories (for projects requiring approval according to law, the operating activities can be commenced upon approval of the relevant departments). The ultimate beneficial owner of Yong'an Heli is Zhu Kongjue (朱孔珏), an independent third party of the Company.

PROPOSED APPOINTMENT OF NON-EXECUTIVE DIRECTOR

Subject to the approval of Shareholders of the Company at the EGM, the Board will appoint Mr. Wu Yanzhang (吳燕璋) ("Mr. Wu") as a non-executive Director. Biographical details and information relating to Mr. Wu pursuant to Rule 13.51(2) of the Listing Rules are set out hereunder.

Mr. Wu, Chinese, male, aged 55, obtained a bachelor's degree in machinery manufacturing management at Hefei University of Technology and EMBA at China Europe International Business School. Mr. Wu served as the dispatcher of the production department, the deputy department head, assistant to factory head and the director of office of Beijing No. 1 Machine Tool Plant (北京第一機床廠), the sino general manager of OKUMA-BYJC (Beijing) Machine Tool Co. Ltd (北一大隈公司), the director of communications office, the director of office, the head of legal department, the head of non-financial corporate management department and the head of asset management department of Jingcheng Machinery Electric, director and the general manager of Jingcheng Compressor Co., Ltd., director and the deputy general manager of the Company. He is currently the head of the Investment and Development Department of Jingcheng Machinery Electric and director of Beijing ABB High Voltage Switch Co., Ltd. (北京ABB高壓開關有限公司).

Save as disclosed in this circular, Mr. Wu has no relationship with other directors, supervisors, senior management, substantial shareholder or controlling shareholder of the Company. Mr. Wu is the head of the Investment and Development Department of Jingcheng Machinery Electric, the controlling shareholder of the Company.

Mr. Wu does not hold any interests in shares of the Company as defined in Part XV of the SFO, nor does he hold directorship or supervisorship in any other listed public companies in the last three years.

Save as disclosed above, in respect of Mr. Wu, there is no other information which is required to be disclosed pursuant to any provisions under Rule 13.51(2) of the Listing Rules nor other information that need to be brought to the attention of the shareholders of the Company. As at the date of this circular, according to the register maintained pursuant to section 352 of the SFO, Mr. Wu does not have any interest or short positions in the shares, underlying shares and debentures of the Company.

The Company will enter director's services contracts with Mr. Wu, who did not receive remuneration from the Company.

LETTER FROM THE BOARD

The ordinary resolution concerning the appointment of Mr. Wu as the non-executive Director will be proposed at the EGM.

RECOMMENDATION

The Directors consider that both the amendment to the terms of public tender in relation to the Potential Disposal as well as the entering into the Agreement are fair and reasonable and on normal commercial terms and are in the interests of the Company and the Shareholders as a whole. The Directors also consider the proposed appointment of the non-executive Directors are in the interest of the Company and Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the amendment to the terms of public tender in relation to the Potential Disposal, the entering into the Agreement as well as the proposed appointment of non-executive Director.

THE EGM

Whether or not you are able to attend the EGM, you are requested to complete and return the form of proxy which is enclosed in this circular in accordance with the instructions printed thereon as soon as possible and in any event not less than 24 hours before the time appointed for the holding of the EGM or any adjournment thereof. The form of proxy should be returned to the business address of the Company at No. 2 Huo Xian Nan San Road, Huo Xian Town, Tongzhou District, Beijing, PRC, or the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 24 hours before the time appointed for the commencement of the EGM or any adjournment thereof. Completion and return of the said revised form of proxy will not prevent you from attending and voting in person at the EGM or at any adjournment thereof if you so wish.

Reply slip for the EGM is enclosed in this circular. You are reminded to complete and sign the reply slip and return the signed slip to the Company at Board office, No. 2 Huo Xian Nan San Road, Huo Xian Town, Tongzhou District, Beijing, PRC, before 20 August 2019 in accordance with the instructions printed thereon.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Appendices I to III to this circular.

Yours faithfully,
By order of the Board
**BEIJING JINGCHENG MACHINERY
ELECTRIC COMPANY LIMITED**
Luan Jie
Company Secretary

1. STATEMENT OF INDEBTEDNESS

As at 31 July 2019, the Group had interest-bearing loans of RMB382,874,518.54, including Jingcheng Machinery Electric's interest-bearing credit loans of RMB45,000,000.00, pledged bank loan of RMB149,874,518.54 and unpledged bank loan of RMB188,000,000.00 and such bank loans were guaranteed. Except for the above or otherwise disclosed in this circular, as at 31 July 2019, the Group had no loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or bonds, mortgages, loans or other similar indebtedness or commitments under finance leases, hire purchase commitments, liabilities under acceptance (other than normal trade bills), acceptance credits, guarantees or other contingent liabilities.

2. WORKING CAPITAL

The Directors are of the opinion that, after due and careful enquiry, after taking into account the Group's internal resources, the effect of the amendment to the terms of public tender in relation to the Potential Disposal, the Agreement and the transactions contemplated thereunder and existing cash and bank balances, the Group will have sufficient working capital for its present requirements for a period of at least 12 months from the date of this circular, in the absence of unforeseeable circumstances.

3. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The amendment to the terms of public tender in relation to the Potential Disposal together with the Agreement facilitate the Company to reach an agreement with Potential Transferee in respect of the Potential Disposal. The completion of the Potential Disposal will enable the Company to significantly reduce operating costs, optimize its asset structure and resource allocation, further focus on its core business, enhance assets quality and improve the profitability of the Company. The Company will accelerate the progress of business transformation, strengthen its capabilities on fund using and business-risk control and enhance its entire risk resistance capacity, in the pursuit of striving for balance between profits-gaining and sustainable development.

Extract of Asset Valuation Report
on the Value of All the Shareholders' Interest of
Shandong Tianhai High Pressure Containers Co., Ltd.
in relation to the Proposed Transfer of Equity Interests in
Shandong Tianhai High Pressure Containers Co., Ltd.
Held by Beijing Tianhai Industry Co., Ltd.

Zhong Qi Hua Ping Bao Zi (2018) No. 4028

Beijing Tianhai Industry Co., Ltd.:

Engaged by Beijing Tianhai Industry Co., Ltd., China Enterprise Appraisals Co., Ltd. appraised, in accordance with relevant laws, administrative rules and regulations and asset valuation standards on the principles of independence, objectivity and impartiality, as well as the necessary valuation procedures, the market value on the Benchmark Date of 30 April 2018 of all of the shareholders' interests of Shandong Tianhai High Pressure Containers Co., Ltd. The summary of the Asset Valuation Report is as follows:

I. PURPOSE OF VALUATION

Beijing Tianhai Industry Co., Ltd. intends to transfer its equity interests held in Shandong Tianhai High Pressure Containers Co., Ltd.. In this regard, Beijing Tianhai Industry Co., Ltd. engaged China Enterprise Appraisals Co., Ltd. to conduct valuation of the value of all of the shareholders' interests of Shandong Tianhai High Pressure Containers Co., Ltd. involved in such economic activity, and provide the reference value for the said economic activity.

II. VALUATION TARGET AND SCOPE OF VALUATION

Valuation target: Value of all of the shareholders' interests of Shandong Tianhai High Pressure Containers Co., Ltd.

Scope of valuation: Total assets and liabilities of the entity to be evaluated. The assets within the scope of valuation included current assets, fixed assets, construction-in-progress, intangible assets, etc. All liabilities were current liabilities.

III. TYPE AND DEFINITION OF VALUE

The type of value to be evaluated is determined to be the market value.

Market value refers to the estimated value of an arm's-length transaction made by the evaluated entity in the ordinary course of business on the Benchmark Date between a willing buyer and a willing seller who has each acted rationally and without compulsion.

IV. BENCHMARK DATE

The Benchmark Date of this valuation is 30 April 2018.

The Benchmark Date has been determined by the client. Factors such as the end of accounting period and facilitating the realisation of such economic activity were taken into consideration in the determination of the Benchmark Date.

V. VALUATION METHODOLOGY**The Introduction of Valuation Methodology**

Asset-based approach refers to the approach in which, based on the balance sheet of the evaluated entity on the Benchmark Date, the value of the identifiable assets and liabilities on-and off-balance sheet shall be appraised so as to determine the value of the evaluated entity.

VI. VALUATION ASSUMPTIONS

The following assumptions were used for the analysis and estimate in this Asset Valuation Report:

(I) General assumptions

1. It is assumed that the evaluated entity will continue to operate as a going concern after the Benchmark Date;
2. It is assumed that there will be no material changes in the political, economic and social environment of the country and area where the evaluated entity is located after the Benchmark Date;
3. It is assumed that there will be no material changes in the macro-economic policies, industrial policies and regional development policies of the PRC after the Benchmark Date;
4. It is assumed that there will be no material changes to the interest rates, exchange rates, tax bases, tax rates and policy-based levies related to the evaluated entity after the Benchmark Date;
5. It is assumed that the management of the evaluated entity is accountable, stable and competent to perform their duties after the Benchmark Date;
6. It is assumed that the evaluated entity fully complies with all the relevant laws and regulations;
7. It is assumed that there will be no force majeure which may materially and adversely affect the evaluated entity after the Benchmark Date.

(II) Special assumptions

1. It is assumed that the accounting policies adopted by the evaluated entity after the Benchmark Date are consistent with the accounting policies adopted when preparing this Valuation Report in all material aspects;
2. It is assumed that the scope of business and the mode of operation of the evaluated entity after the Benchmark Date are consistent with the current ones based on the existing management mode and management level;
3. It is assumed that the evaluated entity will have an even cash outflow and cash inflow after the Benchmark Date;
4. It is assumed that the products or services of the evaluated entity will maintain the existing position in the market competition after the Benchmark Date;
5. It is assumed that when it comes to production and operation, the evaluated entity will achieve a balance between production and sales in the coming years;
6. As of the Benchmark Date, the evaluated entity rented some plants and equipment for operation. It is assumed that it will continue to use those plants and equipment by way of lease after the Benchmark Date;
7. It is assumed that the land which is occupied by the evaluated entity on a free basis will be used continuously by way of lease after the Benchmark Date.

The conclusion of valuation of this Asset Valuation Report is believed to be correct on the Benchmark Date based on the above assumptions. In the event of any material changes to the above assumptions, the undersigned appraisers and the appraisal institute shall not be responsible for deducing different conclusions of valuation due to any changes of the assumptions.

VII. CONCLUSION OF VALUATION

Based on the above valuation, the following valuation conclusions have been drawn:

As of the Benchmark Date, the book value of total assets of Shandong Tianhai High Pressure Containers Co., Ltd. was RMB267.1729 million, the appraised value was RMB280.6316 million and the amount of appreciation was RMB13.4587 million, representing an appreciation rate of 5.04%; the book value of total liabilities was RMB160.2215 million, the appraised value was RMB160.2215 million, which represented no difference; the book value of net assets was RMB106.9515 million, the appraised value of net assets was RMB120.4101 million and the amount of appreciation was RMB13.4587 million, representing an appreciation rate of 12.58%.

The results of the valuation using the asset-based approach are detailed in the following summary of valuation results:

Summary of valuation results by using the asset-based approach

Benchmark Date: 30 April 2018

Unit: RMB0'000

Items		Book value	Appraised value	Increase or decrease	Appreciation rate %
		A	B	C=B-A	$D=C/A \times 100\%$
I. Current assets	1	14,435.78	14,479.85	44.07	0.31
II. Non-current assets	2	12,281.51	13,583.31	1,301.80	10.60
In which: Long-term equity investment	3				
Investment properties	4				
Fixed assets	5	10,992.08	12,161.81	1,169.73	10.64
Construction-in-progress	6	62.11	62.11	0.00	0.00
Intangible assets	7	1,227.33	1,359.39	132.06	10.76
In which: land use rights	8	1,227.33	1,347.94	120.61	9.83
Other non-current assets	9				
Total assets	10	26,717.29	28,063.16	1,345.87	5.04
III. Current liabilities	11	16,022.15	16,022.15	0.00	0.00
IV. Non-current liabilities	12	0.00	0.00	0.00	
Total liabilities	13	16,022.15	16,022.15	0.00	0.00
Net assets	14	10,695.14	12,041.01	1,345.87	12.58

VIII. DATE OF ISSUANCE OF THE ASSET VALUATION REPORT

The date of issuance of the Asset Valuation Report is 15 August 2018.

China Enterprise Appraisals Co., Ltd.
 Asset appraiser: Qi Xianzi
 Asset appraiser: Ma Jiahong

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF DIRECTORS' INTERESTS

As at the Latest Practicable Date, so far as was known to the Directors, the Directors, the supervisors and chief executive of the Company or their respective associates had the following interest or short positions in the Shares, underlying Shares or debentures of the Company or any associated corporations below (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) contained in the Listing Rules, to be notified to the Company and the Stock Exchange:

Long position in Shares

Name of Director	Capacity	Number of Shares held	Approximate percentage of the Shareholding in the entire Share capital of the Company (A Shares and H Shares)
Wu Yan	Beneficial owner	43,001	0.01%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, the supervisors and chief executive of the Company or their respective associates had any interest or short positions in any Shares, underlying Shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

The following is a list of Directors who, as at the Latest Practicable Date, were also employees of a company which has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO:

Name of Director/ proposed Director	Name of Shareholder	Capacity of Director/ proposed Director in Shareholder	Number of Shares held by Shareholder	Approximate percentage of Shareholding in the entire Share capital of the Company (A Shares and H Shares)
Wang Jun	Jingcheng Machinery Electric	Standing committee member of party committee, deputy general manager and general counsel	182,735,052 A Shares	43.30%
Jin Chunyu	Jingcheng Machinery Electric	Assistant of general manager and head of planning and finance department	182,735,052 A Shares	43.30%
Xia Zhonghua	Jingcheng Machinery Electric	Head of housing, land and resources department	182,735,052 A Shares	43.30%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors is a Director or employee of a company which has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

4. DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2018, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to the Company or were proposed to be acquired or disposed of by or leased to the any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date which was significant in relation to the business of the Company.

5. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or the controlling Shareholders or their respective close associates (as defined in the Listing Rules) had any interest in any business which competes or may compete with the business of the Group or has or may have any other conflicts of interest with the Group pursuant to the Listing Rules.

6. MATERIAL CONTRACTS

The following contract (not being contract in the ordinary course of business of the Group) has been entered into by members of the Group within the two years preceding the date of this circular and is or may be material:

- (a) the lease agreement dated 4 September 2018 entered between Beijing Tianhai and Beijing Jingcheng Haitong Technology Culture Development Co., Ltd. (“**Jingcheng Haitong**”) pursuant to which Beijing Tianhai leased the property located at 9 Tianying North Road, Chaoyang District, the PRC to Jingcheng Haitong with a term of lease of 18 years and rent-free period of 6 months. The initial standard rent is RMB1.43/square metre/day, which shall be increased by 5% after every three years from the date of lease; and
- (b) the subscription agreement entered into between the Company and Jingcheng Machinery Electricity on 6 May 2019 in relation to the subscription of not more than 84,400,000 ordinary shares of the Company with a nominal value of RMB1.00 each, which will be issued in the PRC, subscribed in RMB and listed on the Shanghai Stock Exchange, details of which are previously disclosed in the announcement and circular of the Company dated 6 May 2019 and 26 June 2019 respectively.

7. MATERIAL LITIGATION

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, the Group was not involved in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

8. EXPERT'S QUALIFICATION AND CONSENT

The following is the qualification of the expert who has given opinion or advice is contained in this circular:

Name	Qualification
Beijing China Enterprise Appraisals Co., Ltd (“BCEA”)	Independent PRC valuer

BCEA has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report or extract of report as set out in this circular and references to its name in the form and context in which it appears in this circular.

As at the Latest Practicable Date, BCEA did not have any shareholding, directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, BCEA did not have any interest, direct or indirect, in any asset which had been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Group were made up.

9. GENERAL

- (a) The registered office of the Company is at Room 901, No. 59 Mansion, Dongsanhuan Road Central, Chaoyang District, Beijing, PRC.
- (b) The Hong Kong branch share registrar and transfer office of the Company (for H Shares) is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (c) The joint company secretaries of the Company are Mr. Lo Tai On, who is a non-practising qualified accountant and Mr. Luan Jie.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Messrs. Woo Kwan Lee & Lo at 26th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours within 14 days from the date of this circular:

- (a) the articles of association of the Company;
- (b) the material contract referred to under the section headed “Material Contracts” in this appendix;
- (c) the Agreement;

- (d) the extract of Valuation Report as set out in Appendix II to this circular and the relevant Valuation Report;
- (e) the annual reports of the Company for the two financial years ended 31 December 2017 and 2018; and
- (f) the circulars of the Company dated 15 February 2019, 27 June 2019 and this circular.